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RECEIVED

July 10, 1998

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Hon. Magalie Roman Salas
Secretary
FCC MAIL ROOM
Federal Communications Commission
1919 M Street, N.W.
Washington, D.C. 20554

Re: In the Matter of Remand Issues in the Payphone
Proceeding - CC Docket No. 96-128

Dear Secretary Salas:

The New York State Department of Public Service (NYDPS) submits this letter in response to the June 19, 1998 Public Notice inviting comments on remand issues in the payphone proceeding.¹ These remand issues center on market competition and the derivation of the compensation rate that carriers pay payphone operators for coinless telephone calls. The NYDPS is concerned that the underlying base rate (\$.35) used to develop the coinless compensation rate significantly exceeds the costs to provide payphone service.²

In 1997, New York Telephone Company (d/b/a Bell Atlantic - New York) submitted a long run incremental cost analysis indicating that local coin revenues, based on a \$.25 local coin rate, exceeded relevant coin call costs.³ It is unlikely that other carrier payphone providers have substantially

¹ This case is on remand from a decision of the U.S. Court of Appeals, D.C. Circuit. MCI v. FCC, 1998 U.S. App. LEXIS 9765 (D.C. Cir. 1998).

² The "market based" local coin call cost of \$.35 assumed by the Commission was computed as the rate for a coin call minus the costs associated with collection and other coin related costs. Once the coin costs were removed, the coinless rate was determined to be \$.284.

³ Case 96-C-1174, Order Approving Tariff on a Temporary Basis, issued March 31, 1997.

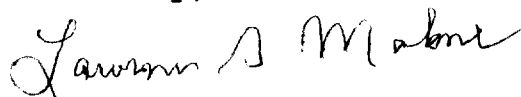
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different costs. Therefore, the compensation rate for coinless calls should be less than \$.20 in New York.⁴

Moreover, the disparity between the cost of a coin call (less than 25 cents) and the \$.35 rate suggests that the \$.35 "default" rate is not representative of a rate that would prevail in a truly competitive market, where costs and prices should converge. Thus, the Commission should reexamine its assumed "market-based" compensation rate for the purpose of determining whether market conditions justify continued deregulation of the local coin rate.

Sincerely,



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⁴ The New York Telephone cost study showed that intrastate rates were not subsidizing the local coin rate of \$.25.

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